

P-407, 421/CP-91-247 ORDER ADOPTING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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|----------------------|--------------|
| Don Storm            | Chair        |
| Tom Burton           | Commissioner |
| Cynthia A. Kitlinski | Commissioner |
| Dee Knaak            | Commissioner |
| Norma McKanna        | Commissioner |

In the Matter of a Petition for  
Extended Area Service From the  
Askov Exchange to the Sandstone  
Exchange

ISSUE DATE: September 28, 1992

DOCKET NO. P-407, 421/CP-91-247

ORDER ADOPTING RATES FOR POLLING

**PROCEDURAL HISTORY**

On April 1, 1991, petitioners in the Askov exchange filed a petition for extended area service (EAS) to the Sandstone exchange. Askov is served by GTE Minnesota (GTE). The Askov petition was assigned Docket No. P-407, 421/CP-91-247.

On the same day, petitioners in the Sandstone exchange filed a petition for EAS to the Askov exchange. Sandstone is served by U S West Communications, Inc. (USWC). The Sandstone petition was assigned Docket No. P-407, 421/CP-91-248.

On December 17, 1991, the Commission issued an Order requiring GTE to file cost studies and proposed rates regarding the proposed Askov to Sandstone extended area service (EAS) route in this matter (Docket No. P-407, 421/CP-91-247) and denied the Sandstone to Askov petition, Docket No. P-407, 421/CP-91-248.

On January 16, 1992, GTE and USWC filed cost studies and proposed rates for the proposed Askov to Sandstone extended area service (EAS) route.

On February 26, 1992, USWC informed the Commission that it had made errors in its cost studies which would require USWC and GTE to file revised information.

On April 1, 1992, USWC and GTE filed the revised information.

On May 11, 1992, the Department filed its report and recommendation.

On June 1, 1992, USWC filed a reply to the Department's report.

On September 22, 1992, the Commission met to consider this matter.

## FINDINGS AND CONCLUSIONS

The Commission has previously found that the Askov to Sandstone petition meets the initial statutory criteria: adjacency and adequate traffic<sup>1</sup>. Minn. Stat. § 237.161, subd. 1 (1990). The Commission will now proceed to determine whether the petition meets the final criterion: adequate subscriber support. Before polling Askov subscribers, however, the Commission will adopt EAS rates to appear on the ballots to inform subscribers regarding the rates that they will experience if EAS is approved.

The Department has raised two issues regarding the proposed rates that this Order will address: cost of money and revenue apportionment.

### 1. Cost of Money

The Department asserted that the return on equity (ROE) figure used by USWC in its cost study (13.4 percent) is too high. The Department urged the Commission to require USWC to refile its cost study using a lower ROE proposed by the Department or simply adopt rates using the Department's ROE. The Department predicted that adopting rates based on USWC's ROE would not leave the Company income neutral as required by the statute, but would increase the Company's income from these routes.

These are the same arguments that the Commission considered and rejected when it adopted EAS rates for North Branch, Cambridge, and Buffalo. See, e.g. In the Matter of the Petition of Certain Subscribers in the North Branch Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-421/CP-86-272, ORDER ADOPTING RATES FOR POLLING (May 22, 1992). Subsequently, the Commission considered and rejected the Department's request, based on the same arguments, that the Commission reconsider its decision in those three dockets. See, e.g. In the Matter of the Petition of Certain Subscribers in the North Branch Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-421/CP-86-272, ORDER DENYING PETITION FOR RECONSIDERATION AND REHEARING (August 18, 1992). See also In the Matter of a Petition for Extended Area Service From Plainview to Rochester, Docket No. P-430, 421/C-91-35, ORDER ADOPTING RATES FOR POLLING (August 25, 1992) and In the Matter of a Petition for Extended Area Service From the Nickerson Exchange to the Askov, Carlton, and Moose Lake Exchanges, Docket No. P-407, 421/C-89-105, ORDER ADOPTING RATES FOR POLLING (September 22, 1992).

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<sup>1</sup> ORDER REQUIRING COST STUDIES AND PROPOSED RATES IN ASKOV PETITION AND DENYING SANDSTONE PETITION (December 17, 1991) at page 2.

In rejecting the Department's recommendation on this point in this case, the Commission incorporates the rationale presented in the North Branch, Cambridge, and Buffalo Orders. The ROE used by USWC is within the bounds of reasonableness. Further, the cost of money is only one element in the EAS cost study. While all the elements should be as accurate as possible to insure that the customers benefitting from the service pay for it, the multiple elements involved reduces the importance of any single element. In these circumstances, recalculation of cost studies and proposed rates as proposed by the Department is unnecessary and would unreasonably delay the process.

In short, the Commission finds that USWC's cost study is adequate as filed and will approve it. Cost factors used in calculating EAS rates should be forward looking, best estimates of the costs that will be experienced during the period that the rates will be in effect. The Commission finds that the return on equity (ROE) used by USWC meets that standard and is within the bounds of reasonableness.

At the same time, the Commission will clarify, as in the previous cases involving this issue, that in approving EAS rates based on a cost study that includes a 13.4 percent ROE figure it is simply finding that USWC's proposed return on equity figure is adequate in the context of a determination of EAS rates for polling. Because of the unique circumstances and goal of EAS rate setting, the Commission's finding here is not precedent for the company's return on equity in its next rate case. In the context of a general rate case, the Commission will approve a rate of return that is appropriate based on the facts presented at that time.

## 2. Allocation of EAS Costs

With regard to apportioning EAS costs between the petitioning and petitioned exchanges, the EAS statute divides EAS petitions into two groups: petitions for EAS to the metropolitan calling area and all other EAS petitions. For petitions to the metropolitan calling area (MCA) the statute mandates that the petitioning exchange rates defray 75% of the costs of providing EAS. For other petitions, however, the statute leaves to the sound discretion of the Commission what percentage (between 50 and 75%) of EAS costs the petitioning exchange will be required to defray in its rates.

Minn. Stat. § 237.161, subd. 3 (a) (1990) states in pertinent part:

When the proposed extended service area is not the metropolitan calling area, the commission shall determine the apportionment of costs, provided that between 50 and 75 of the costs must be allocated to the petitioning exchange.

The Department argued that because the EAS implementation process allows Askov subscribers to vote whether EAS will be installed but denies the same opportunity to subscribers in the petitioned local calling area, it is fair that Askov defray the maximum statutory amount of EAS costs, i.e. 75% of those costs.

As indicated in previous dockets where the Department has made this argument, the Commission does not find this consideration dispositive.<sup>2</sup> The legislature did not establish a presumption that the petitioning exchange, because it gets to vote, must pay 75% of the costs. According to the statutory process, subscribers in the petitioning exchange are always the only subscribers polled in all cases. Knowing this, the legislature clearly stated that rates for non-metro petitions could be set between 50 and 75 percent, thereby indicating that other factors must be considered in deciding what percentage of cost to be allocated to the petitioning exchange.

In choosing what percentage (between 75 and 50 percent) of EAS costs it will impose on the petitioning exchange, the Commission's discretion is guided by Minn. Stat. § 237.161, subd. 3 (b) (1990). That statute requires the Commission to consider the interests of all parties when determining a fair and equitable EAS rate. The Commission's ultimate goal, then, is to select a cost allocation that results in fair and equitable rates for both the petitioning and petitioned exchanges.

In setting EAS rate additives, then, the Commission matches the burden of paying for EAS with the benefits from EAS that each exchange will experience. In so doing, the Commission recognizes that it must evaluate the relative benefits received by the various exchanges from the provision of EAS based on the particular circumstances of each case. The Commission is also aware that the degree to which different cost sharing decisions affect the rates for each exchange will also vary depending on the comparative sizes of the exchanges. To illustrate: a 50/50 division of EAS costs will result in a higher EAS additive for the smaller exchange because it has a smaller base over which to spread the costs allocated to it. In cases where the petitioned exchange is enormously larger than the petitioning exchange, a 60/40 division of costs will significantly reduce the size of the small petitioning exchange's EAS additive, as compared with the rate additive calculated absorbing 75 percent of those costs, while increasing the EAS additive of the large petitioned exchange by pennies. In such exchanges a 50/50 cost division

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<sup>2</sup> For a similar discussion and analysis see: In the Matter of a Petition for Extended Area Service From the Loman Exchange to the International Falls, Ericsburg, and Ranier Exchanges, Docket No. P-407/CP-90-547, ORDER ADOPTING RATES FOR POLLING (March 25, 1992).

will result in an even lower EAS rate additive for subscribers in the petitioning exchange while not resulting in a much higher EAS rate additive for subscribers in the petitioned exchange.

In evaluating the comparative benefit that EAS will provide to the two exchanges involved in this matter, the Commission notes that traffic studies show that less than 50 percent of Sandstone's subscribers make one or more calls to Askov while a great percentage of Askov subscribers make more than one call per month to Sandstone. The record contains no indication that Sandstone subscribers have a particular interest or need, current or anticipated, to call Askov. At the same time, the relatively small disparity in size between Askov (544 subscribers) and Sandstone (1,227 subscribers) is such that selecting a low cost share for Askov would substantially increase Sandstone's EAS rate additive. In these circumstances, the Commission finds that a low cost share for Askov would increase Sandstone's rate additive out of proportion to the benefit it will experience from the proposed EAS.

Since Askov is the prime beneficiary of the proposed EAS route and is relatively similar in size to Sandstone, the Commission finds that requiring the petitioning exchange to bear 75 percent of costs of providing EAS is appropriate and will result in fair and equitable rates for both Askov and Sandstone.

#### Commission Action

The Commission will adopt rates for polling consistent with its decisions herein to use USWC's ROE figure in calculating rates and that allocate 75 percent of the costs of providing EAS service between Askov and Sandstone.

The Commission will now proceed to poll the Askov subscribers to see if a majority of those responding to the poll support the installation of EAS between Askov and Sandstone. The EAS rates adopted for Askov will appear on the ballots distributed to Askov subscribers.

#### ORDER

1. The Commission hereby adopts for polling extended area service (EAS) rates for the Askov exchange and the Sandstone exchange that
  - a. are calculated using USWC's cost of money figure;
  - b. allocate to Askov 75 percent of the costs of providing the proposed EAS; and

- c. comply with Minn. Stat. § 237.161 (1990) in all other respects as well.
2. For the EAS route proposed between Askov and Sandstone the EAS rate additives are:

| ASKOV                   |              | SANDSTONE               |              |
|-------------------------|--------------|-------------------------|--------------|
| <u>Class of Service</u> | <u>Rates</u> | <u>Class of Service</u> | <u>Rates</u> |
| Residential             | \$ 3.65      | 1FR                     | \$ .47       |
| Business                | \$ 7.30      | 1FR Key                 | \$ .48       |
|                         |              | 2FR                     | \$ .34       |
|                         |              | 1FB                     | \$1.16       |
|                         |              | 1FB Key                 | \$1.22       |
|                         |              | Trunk                   | \$1.34       |
|                         |              | Semi-Public             | \$1.16       |

4. GTE Minnesota, Inc. (GTE) shall cooperate fully with Commission Staff and Commission contractors to expedite the polling of Askov subscribers. As part of this cooperation, GTE shall provide Commission Staff upon request with a customer list for the Askov exchange and associated information in a timely fashion.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

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